

OPEN MEETING AGENDA ITEM



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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, Chairman
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AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

MAR 05 2014

DOCKETED BY

IN THE MATTER OF THE APPLICATION OF
FRANCESCA WATER COMPANY, INC. FOR A
PERMANENT RATE INCREASE.

DOCKET NO. W-03945A-13-0287

ORIGINAL

EXCEPTIONS TO RECOMMENDED OPINION AND ORDER

March 5, 2014

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3 Francesca Water Company, Inc. (“Francesca” or “the Company”) respectfully requests that the
4 Commission consider these exceptions to the Recommended Opinion and Order (“ROO”). The
5 Company accepts the ROO’s rate base and operating expense adjustments. There are two issues that
6 the Company contests here: the overall revenue requirement allowed and the rate design.

7 **Revenue Requirement**

8 The revenue requirement recommended by the Staff and adopted by the ROO is simply too
9 low. The ROO’s recommended revenue provides a net income of only \$5,362 and free cash flow of
10 only \$8,168. Staff indicates that their recommended revenue requirement provides \$10,267 in free
11 cash flow because they do not recognize interest on short term debt as a cash flow item.¹ Whether the
12 interest is recognized or not, the ROO’s free cash flow isn’t adequate. Under the Company’s
13 proposed revenue free cash flow is only \$11,977 (or \$14,000 if short term interest isn’t recognized)
14 and the net income is only \$12,636. This is hardly an exorbitant amount considering that the
15 Company is responsible for providing safe drinking water on demand for over 100 people.

16 The ROO’s revenue requirement is based on a rate of return of 10%. While a rate of return in
17 that range may be appropriate for a large utility, Francesca’s rate base simply isn’t large enough to
18 generate a reasonable amount of revenue with that level of return.

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22 ¹ The interest expense in question is \$2,099. The Company strongly disagrees with the ROOs
23 (completely unsupported) conclusion that the Company “may pay off the balance at any time and the
24 interest payments would cease...” The Company is not capable of paying off the balance “at any
25 time.” If it were, the debt need never have been incurred in the first place. The debt was taken on out
26 of necessity, not because Francesca’s owners wanted to spend an extra \$2,000.

1 **Rate Design**

2 The rate design recommended by Staff and adopted by the ROO allocates too much of the
3 increase in revenue to the top tier. Under the ROO's rates 55% of the increased revenue comes from
4 the top tier. Allocating so much of the increase to the top tier puts the Company at substantial risk of
5 not achieving its revenue requirement because the top tier users are the users who are most likely to
6 conserve. In fact, the whole point of tiered rates is to incent the top tier to conserve. The
7 Commission has recently recognized that tiered rates result in (and are intended to result in) declining
8 customer usage.² Therefore, if the Commission decides to adopt the ROO's revenue requirement the
9 Company respectfully requests that the alternate set of rates in Attachment A be adopted. These rates
10 produce the same revenue as the ROO's rates (assuming no decline in usage.) The alternate rates in
11 Attachment A still provide a conservation incentive but it is balanced by a higher minimum charge
12 which provides for revenue stability. The median customer would pay \$3.26 more per month under
13 these alternate rates than under the ROO's rates.

14 **Conclusion**

15 Francesca respectfully requests that the revenue requirement and rates it proposed in its
16 application be adopted. In the alternative, if the ROO's revenue requirement is adopted, Francesca
17 requests that the rates laid out in Attachment A be adopted.

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² Decision 74081 at 53, explaining the adoption of a "declining usage adjustment" for Arizona Water.

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Attachment A

Alternative Rates to meet the ROO’s revenue requirement

Minimum Charge

5/8 by 3/4” meters \$22.00
1” meters \$50

Commodity Charge

Tier 1	0 to 3,000 gallons	\$2.30
Tier 2	3,001 to 10,000 gallons	\$4.00
Tier 3	Over 10,000 gallons	\$4.73